

Food Marketing

Food Price Inflation to Remain Low In 2000 & 2001

Consumers continue to see only modest increases in food prices. The Consumer Price Index (CPI) for all food is forecast to increase 2.3 percent in 2000 and 2-2.5 percent in 2001. This follows increases of 2.2 percent in 1998 and 2.1 percent in 1999. With 8 months of CPI data already collected in 2000, the annual average food CPI is 2.1 percent above the first 8 months of 1999. The inflation rate for the all-items CPI is forecast to be 3.3 percent in 2000, after increasing 2.2 percent in 1999.

Higher energy prices have not yet translated into higher food prices in 2000. This is largely due to the fact that transportation and energy costs are fairly small components of the total food marketing bill, which is 80 cents for every dollar spent by consumers on food. Transportation costs are 4 cents and energy costs are 3.5 cents of the marketing bill. However, if higher energy costs persist for the remainder of the year and the inflation rate remains over 3 percent, the forecast increase of 2.3 percent for all food could inch up another 0.2 percentage point.

The at-home component of the food CPI is forecast up 2.2 percent in 2000 and 2-2.5 percent in 2001. The away-from-home component is expected to increase 2.3 percent in 2000 and 2.5-3 percent in 2001. Gains in this component are held down by competition among restaurants, fast-food establishments, and take-home meals offered by supermarkets.

Food price changes are key in determining what proportion of income consumers spend for food. In 1999, 10.4 percent of household disposable income went for food—with 6.2 percent for food at home and 4.2 percent for food away from home—down from 10.5 percent in 1998. This downward trend is expected to continue in 2000 and 2001.

Meats. Total red meat supplies are expected to be 51.3 billion pounds in 2000, slightly above the 1999 level. In 2001, red

meat supplies will be down to an estimated 50.2 billion pounds, with beef supplies expected to fall to 29 billion pounds and pork to increase slightly to 20.6 billion pounds. Poultry producers have benefited from low feed costs, and record poultry supplies (38.8 billion pounds) are expected next year. A booming economy continues to fuel demand for meat products, and overall meat prices are up 5.6 percent in 2000. Large meat supplies will limit the gain to 1-2 percent next year.

Beef and veal. The CPI for beef is expected to increase 1-2 percent in 2001, after increasing a forecast 5.8 percent in 2000. The 2000 increase will be the largest annual increase since 1990, when the beef CPI increased nearly 8 percent. Domestic beef supplies are likely remain large in the fourth quarter of 2000, but will tighten over the next couple of years. The cattle inventory has been declining since 1996. With smaller supplies and higher prices,

consumption is expected to decline to 66 pounds per capita in 2001.

Pork. Following two consecutive record years, pork production is expected to fall to 18.9 billion pounds in 2000. With pork production down about 3 percent, retail pork prices are forecast up about 7.1 percent in 2000. Hog producer returns are more favorable than in 1998 and 1999, and with continued positive returns in the coming months, pork production is expected to increase to 19.1 billion pounds in 2001, up about 1 percent in 2001. Retail pork prices are expected to increase 1-2 percent.

Poultry. The CPI for poultry is forecast up 1.3 percent in 2000, with another small increase of up to 1 percent expected in 2001. Broiler meat production is expected to increase 5 percent to 32 billion pounds in 2001, and turkey production is forecast up 1 percent. Large supplies of red meat have been an important factor in overall meat prices in 2000, as broiler production increases slowed down in the second half of 2000. Also, exports in the fourth quarter are expected to be lower than a year ago.

Changes in Food Price Indicators, 1999 through 2001

| | Relative weights* | 1999 | 2000 | Forecast 2001 |
|---------------------------------|-------------------|----------------|------|---------------|
| | Percent | Percent change | | |
| All items | | 2.2 | 3.3 | 2.9 |
| All food | 100.0 | 2.1 | 2.3 | 2 to 2.5 |
| Food away from home | 37.2 | 2.5 | 2.3 | 2.5 to 3 |
| Food at home | 62.8 | 1.9 | 2.2 | 2 to 2.5 |
| Meats | 10.8 | 0.5 | 5.6 | 1 to 2 |
| Beef and veal | 4.8 | 2.0 | 5.8 | 1 to 2 |
| Pork | 3.8 | -1.8 | 7.1 | 1 to 2 |
| Other meats | 2.2 | 1.0 | 2.2 | 2 to 3 |
| Poultry | 3.2 | 0.5 | 1.3 | 0 to 1 |
| Fish and seafood | 2.2 | 2.0 | 3.0 | 2 to 3 |
| Eggs | 0.8 | -5.4 | -0.3 | 0 to 1 |
| Dairy products | 6.7 | 5.8 | 0.9 | 1 to 2 |
| Fats and oils | 1.9 | 1.0 | -0.2 | 2 to 3 |
| Fruits and vegetables | 9.0 | 2.5 | 0.1 | 2 to 3 |
| Fresh fruits and vegetables | 6.9 | 2.8 | -0.1 | 2 to 3 |
| Fresh fruits | 3.5 | 8.0 | -3.7 | 2 to 3 |
| Fresh vegetables | 3.4 | -3.0 | 4.4 | 2 to 3 |
| Processed fruits and vegetables | 2.1 | 2.1 | 1.1 | 2 to 3 |
| Sugar and sweets | 2.4 | 1.4 | 1.6 | 1.5 to 2.5 |
| Cereal and bakery products | 10.0 | 2.2 | 2.0 | 2 to 3 |
| Nonalcoholic beverages | 7.0 | 1.0 | 2.7 | 2 to 3 |
| Other foods | 8.5 | 2.1 | 2.0 | 2 to 3 |

*Bureau of Labor Statistics estimated weights as share of all food, December 1999.

Sources: Historical data, Bureau of Labor Statistics; forecasts, Economic Research Service.

Economic Research Service, USDA

Briefs

Fish and seafood. The CPI for fish and seafood is forecast up 3 percent in 2000, with an expected 2-3 percent gain in 2001. A strong domestic economy is boosting sales in the restaurant and food-service sectors in 2000. Higher away-from-home sales are especially beneficial to seafood demand, as a growing share of total seafood sales is made in this sector. More than 50 percent of the fish and seafood consumed in the U.S. is imported, with another 20-25 percent from U.S. farm-raised production.

Eggs. The CPI for eggs is forecast to fall 0.3 percent in 2000, but rise as much as 1 percent in 2001. Egg production is forecast to increase more than 2 percent in 2000, lowering both wholesale and retail egg prices. Growth in table egg production is expected to slow to 1 percent in 2001. Higher production levels and slower growth in exports have led to lower retail prices the past 4 years. Per capita consumption is expected to reach 260 eggs in 2000 and 2001, up from 256 eggs per person in 1999.

Dairy products. Strength of the general economy and higher consumer incomes (a 5.6-percent increase in 1999) continues to push demand for dairy products, but growth in milk production (3-percent projected rise) is limiting gains in retail prices for milk and dairy products in 2000. The CPI for dairy products is expected to increase 0.9 percent in 2000 and 1-2 percent in 2001. Milk production is expected to be up less than 1 percent in 2001, although milk cow numbers are expected to decline slightly. Strong consumer demand for dairy items, especially gourmet ice cream, cheese, and butterfat products, is expected to continue into 2001. Other key demand factors include increased spending for away-from-home eating and the willingness to pay for convenience and other forms of commercial food preparation.

Fresh fruits. A December 1998 freeze in California resulted in higher retail prices in 1999 for navel oranges (up 49 percent) and Valencia oranges (up 44 percent), and contributed to an 8-percent gain in the fresh fruit index for the year. The 1999/2000 crop rebounded in California, and the CPI for fresh fruits is forecast down 3.7 percent in 2000. For the first 8

months of 2000, retail prices are lower for navel oranges (down 32 percent), Valencia oranges (down 30 percent), grapes (down 8 percent), peaches (down 11 percent), and strawberries (down 8 percent). With continued U.S. consumer demand for fresh fruits and normal production levels for major fruits in the U.S., the fresh fruit CPI is forecast to increase 2-3 percent in 2001.

Fresh vegetables. Fresh-market production will likely decline about 1 percent in 2000 as growers have reduced acreage in response to financial losses caused by lower grower prices the year before. California, accounting for 50 percent of this year's summer-season area, reduced acreage 3 percent. New York, the second leading summer-season producer, with 11 percent of acreage, expects to harvest 10 percent less than a year ago due to an unusually cool, wet spring. Prospective U.S. summer area was the same or lower for many vegetables, except for carrots (up 11 percent), cabbage (up 6 percent), cauliflower (up 5 percent), honeydew melons (up 3 percent), and tomatoes (up 2 percent). But market volume may not be down much from a year earlier due to higher yields expected in California and the likelihood of improved yields in the eastern U.S. With production down slightly and strong demand for fresh vegetables, the fresh vegetable index is forecast up 4.4 percent in 2000. Assuming normal production levels for major fresh vegetables in 2001, the fresh vegetable CPI is forecast to increase 2-3 percent in 2001.

Processed fruits and vegetables.

Adequate supplies of most fruits and vegetables for processing is expected to limit the CPI increase for processed fruits and vegetables to 1.1 percent in 2000 and 2-3 percent in 2001.

Sugar and sweets. Domestic sugar production for 1999/2000 is estimated at a record 9.1 million tons, more than 700,000 tons larger than production the previous fiscal year. Low prices for soybeans, corn, wheat, barley, and rice have reduced producer returns for these alternative crops, leading to increases in acreage for sugar crops. Large supplies are also expected in 2000/01. Relatively low inflation, along with increased production and lower retail prices for select-

ed sugar-related food items is expected to limit the sugar and sweets index increase to only 1.6 percent in 2000 and 1.5-2.5 percent in 2001.

Demand for sugar and sugar-related products continues to increase. Per capita consumption of caloric sweeteners is expected to increase almost 20 pounds per person from 1990 to 2000, due in part to a dramatic drop in inflation-adjusted retail prices, from 33 cents per pound to 26 cents. During this 10-year period, the retail price for white sugar stayed almost constant, averaging about 43 cents per pound.

Cereal and bakery products account for a large portion of the at-home food CPI—almost 16 percent. With grain prices lower this year and inflation-related processing costs modest, the CPI for cereals and bakery products is forecast to increase 2 percent in 2000. Most of the costs to produce cereal and bread products—more than 90 percent in most cases—are for processing and marketing, with grain and other farm ingredients accounting for a fraction of the total cost. With competition among producers and consumer demand for bakery products expected to remain fairly strong, the CPI is forecast up 2-3 percent in 2001.

Nonalcoholic beverages. The CPI for nonalcoholic beverages is forecast up 2.7 percent in 2000 and is forecast to increase another 2-3 percent in 2001. Coffee and carbonated beverages are the two major components, accounting for 28 and 38 percent of the nonalcoholic beverages index. Retail prices have been higher in 2000 for ground roast coffee (up 3 percent) and soft drinks (up 4 percent). World coffee production in 2000/01 is a forecast record 108.7 million 60-kilogram bags, nearly 2 percent above last year's level and 570,000 bags above the previous record coffee crop in 1998/99. Up to 80 percent of U.S. imports are arabica beans along with 15-20 percent robustas, which go mainly to soluble (instant) coffee or are blended with arabicas. Recent near-record production in Brazil, the largest producer of arabica beans, should lead to larger U.S. stocks and continued moderate consumer prices. **AO**

Annette L. Clauson (202) 694-5389
acluson@ers.usda.gov